

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, October 11, 1935, at 11:30 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Thomas, Vice Chairman
Mr. Hamlin
Mr. James
Mr. Szymczak

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary

The Board acted upon the following matters:

Letter to Mr. Sproul, Secretary of the Federal Reserve Bank of New York, reading as follows:

"Receipt is acknowledged of your letter of October 10, 1935, advising of the action taken by the board of directors of your bank at its meeting on that date with regard to the establishment of rates of discount and purchase at your bank.

"The Board of Governors of the Federal Reserve System approves for your bank, effective October 10, 1935, the rate of 2% per annum established by your directors for advances to member banks under the provisions of section 10(b) of the Federal Reserve Act, as amended, including renewals of outstanding advances made under section 10(b) of the Federal Reserve Act prior to March 3, 1935.

"It is noted that the rate referred to above was established largely in order that the three member banks in the district which are now borrowing under section 10(b) may have the benefit of the lowest rate of interest now permitted by law, and that on the broad question of general policy with respect to the rate of interest to be charged on future advances under section 10(b), your directors expressed the view that their action should not be regarded as a precedent for future policy which can be determined only after further consideration in the light of experience in the administration of the section.

"The Board also notes with approval that your board of directors established without change the other rates of discount and purchase in effect at your bank."

Approved unanimously.

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Telegrams dated October 10, 1935, from Mr. Hoxton, Chairman of the Federal Reserve Bank of Richmond, and Mr. McAdams, Secretary of the Federal Reserve Bank of Kansas City, and October 11 from Mr. Clark, Secretary of the Federal Reserve Bank of Atlanta, all advising of the establishment without change by their respective banks on the dates stated of the rates of discount and purchase in effect at the banks.

Noted with unanimous approval.

Telegram to Mr. Strater, Secretary of the Federal Reserve Bank of Cleveland, reading as follows:

"Your telegram October 4. In accordance with Mr. Szymczak's telephone conversation today with Governor Fleming Board will take no action on rate of $2\frac{1}{2}\%$ for advances under Section 10B, it being understood that matter will be given further consideration at meeting your directors on October 18. Board notes with approval that your directors established without change other rates of discount and purchase in effect at your bank."

Approved unanimously.

Telegram to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"In accordance with your recommendation the Board will interpose no objection to the assumption of deposit liabilities and acquisition of assets of the 'Security National Bank of Everett', Everett, Washington, by the 'Peoples Bank and Trust Company', Seattle, Washington, under the plan outlined in your letter of October 5, 1935, and approves the application of Peoples Bank and Trust Company for permission to operate a branch at Everett, Washington, subject to the final approval of appropriate State authorities and provided that

The Peoples Bank and Trust Company shall agree to increase the aggregate amount of its capital and surplus to not less than \$1,500,000 by July 1, 1936.

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"It is understood that the assets to be acquired from the national bank by the Peoples Bank and Trust Company are to be approved by the State banking department and by an examiner for the Federal Reserve Bank of San Francisco.

"Please advise the trust company accordingly."

Approved unanimously.

Letter to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your letter dated August 28, 1935 and to our previous correspondence relating to the establishment by the American Trust Company, San Francisco, California, of 'foreign department agencies' on the S. S. 'Mariposa' and the S. S. 'Monterey'.

"In your letter of February 6, 1935, you asked whether the Board would consider these agencies as branches under the provisions of section 9 or of section 25 of the Federal Reserve Act and, if not, whether the trust company should make application and receive the approval of the Board for the establishment of such agencies.

"It is understood from the American Trust Company's letter to Mr. Sonne dated March 29, 1935, that the method of operation of the agencies provides for a representative of the bank on each of the ships who is to perform the following functions:

1. Purchase and sale of foreign currencies against U. S. Dollars.
2. Purchase and sale of Travelers Checks in Dollars, and Pounds.
3. Encashment of drafts under Letters of Credit in Dollars and foreign currencies.
4. Encashment of personal checks and bank drafts in Dollars and foreign currencies.
5. Sales of Money Orders in U. S. Dollars.
6. Sales of Foreign stamps, i. e., Fiji, New Zealand and Australian.
7. Sales of foreign currencies, i. e., Fiji, Australian and New Zealand in the respective countries, proceeds to be received in terms of Pounds Sterling for the credit of our account in London, England.
8. Trading in foreign currencies, i. e., trading Fiji Pounds for Australian Pounds, New Zealand Pounds for Fiji Pounds, etc.

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"It is also understood from the above letter that these agencies do not accept deposits or lend money although they do negotiate or purchase checks. In this connection, the question has arisen as to whether the negotiation of checks drawn on the head office or on one of the branches of the American Trust Company constitutes the 'paying' of such checks and, in a letter to you dated June 28, 1935, the trust company advised that the practice of accepting such checks could be discontinued and non-negotiable receipts could be issued covering the payment of funds, thus eliminating checks from the transaction.

"On the basis of the facts stated above, the Board is of the opinion that if the agencies cease to negotiate and accept checks and other negotiable instruments drawn on the head office of the trust company or on its branches, the agencies will not constitute branches within the meaning of sections 9 and 25 of the Federal Reserve Act and no approval of the Board will be necessary for the establishment and operation of such agencies.

"It will be appreciated if you will advise the American Trust Company of the Board's views in this matter and if you will also advise the trust company that any substantial change in the method of operation of the agencies should be reported to you in order that the Board may determine whether, under such changed method of operation, the agencies constitute branches requiring the approval of the Board."

Approved unanimously.

Letter to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"In connection with its consideration of the application of 'Silver Springs Shareholders, Inc.', Silver Springs, New York, for a voting permit entitling it to vote the stock which it owns or controls of 'The Silver Springs National Bank', Silver Springs, New York, the Board has determined that the applicant is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935, and, accordingly, the applicant is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

"Inclosed herewith is a letter to the applicant advising it concerning the Board's action in this matter. If,

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"for any reason, you believe that this matter should be re-considered by the Board, please communicate with the Board at once. Otherwise you are requested to transmit the inclosed letter to the applicant. A copy of the letter is also inclosed for your files.

"As you will note, the Board expressly reserves the right to make a further determination of this matter at any time on the basis of the then existing facts. You will also note that Silver Springs Shareholders, Inc. is advised that if the purpose for which that organization operates, the purpose for which it holds the stock of the subsidiary bank, the nature of its assets, or the character of the functions which it performs is in the future substantially changed, or if that corporation acquires control over any other bank, this matter should again be submitted to the Board for its determination. In this connection it is requested that you advise the Board if, at any time, you believe this matter should again be considered by it."

Approved unanimously, together with
a letter to the "Silver Springs Share-
holders, Inc.", Silver Springs, New York,
reading as follows:

"This refers to the application of your corporation for a voting permit entitling it to vote the stock which it owns or controls of 'The Silver Springs National Bank', Silver Springs, New York.

"The Board understands that your corporation owns 220 of the 250 outstanding shares of stock of The Silver Springs National Bank but that it does not own or control any other bank stock and does not own any other assets of any significance; that your corporation was organized in 1932, at a time when national banks were not permitted to issue preferred stock, in order to provide necessary capital funds for The Silver Springs National Bank without a stockholders' assessment; that subsequently the great majority of the stock of your corporation now outstanding was issued to depositors of The Silver Springs National Bank in exchange for assignments of deposits in connection with a plan to enable the bank to reopen following the banking holiday in 1933; that of \$152,975 in cash or assigned deposits received by your corporation for its two classes of preferred stock, \$152,000 has been contributed to The Silver Springs National Bank; that your corporation was not organized and is not operated for the purpose of managing or controlling The Silver Springs National Bank and your corporation does not hold the stock of such bank for

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"that purpose; and that your corporation now exists merely as an incident to the rehabilitation of The Silver Springs National Bank.

"As you perhaps know, section 301 of the Banking Act of 1935 amended section 2(c) of the Banking Act of 1933, defining the term holding company affiliate, by adding thereto the following paragraph:

'Notwithstanding the foregoing, the term "holding company affiliate" shall not include (except for the purposes of section 23A of the Federal Reserve Act, as amended) any corporation all of the stock of which is owned by the United States, or any organization which is determined by the Board of Governors of the Federal Reserve System not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies.'

"In view of the above facts, the Board has determined that your corporation is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of the above quoted statutory provisions, and, therefore, it is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act. Accordingly, it is not necessary for your corporation to obtain a voting permit in order to vote the stock which it owns or controls of The Silver Springs National Bank and, on this basis the Board will give no further consideration to your application for such a permit.

"If, however, your corporation acquires control over any other bank, or the purpose for which your corporation operates, the purpose for which it holds the stock of the subsidiary bank, the nature of its assets, or the character of the functions which it performs should at any time differ from the description thereof contained in this letter to an extent which would indicate that it might be engaged as a business in holding the stock of, or managing or controlling banks, this matter should again be submitted to the Board for its determination. The Board reserves the right to make a further determination of this matter at any time on the basis of the then existing facts."

Letter to Mr. Clark, Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta, reading as follows:

"Receipt is acknowledged of your letter of October 8, 1935, in which you request a ruling by the Board as to whether

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"W. C. Bradley Company and certain other corporations, all or substantially all of whose stock is owned by W. C. Bradley Company, are affiliates of Columbus Bank & Trust Company, Columbus, Georgia, under the provisions of section 2(b)(2) of the Banking Act of 1933.

"It is understood that substantially all of the outstanding stock of W. C. Bradley Company is owned by stockholders of Columbus Bank & Trust Company who own or control 4,183 of the 8,500 outstanding shares of stock of such bank. While it is not specifically stated in your letter, it is assumed that the same facts existed at the time of the preceding election of directors of the bank. It is understood that such stockholders voted 2,483 of the 6,312 shares of the stock of the bank voted at such election of directors. On the basis of these facts, the Board is of the opinion that W. C. Bradley Company and the corporations controlled by it are not affiliates of Columbus Bank & Trust Company under the provisions of section 2(b)(2) of the Banking Act of 1933."

Approved unanimously.

Letter dated October 10, 1935, approved by four members of the Board, to Mr. McAdams, Assistant Federal Reserve Agent at the Federal Reserve Bank of Kansas City, reading as follows:

"Receipt is acknowledged of your letter of September 24, 1935, regarding the submission and publication of reports by the Central Securities Company, an inactive affiliate of the Riverview State Bank of Kansas City, Kansas. It is noted upon examining the form 220 submitted by the Central Securities Company for June 29, 1935, that it is stated under manner of affiliation: 'No business during 1935. This is a dormant charter which is being kept alive by the Riverview State Bank. If and when the stock of this company is issued it will be issued 95 shares to W. J. Breidenthal, Trustee, and 1 share each to 5 directors.' The reverse of the Form 220 indicates, however, that the affiliate has 100 shares of stock outstanding, which is indirectly owned by the bank.

"An examination of the bank made on April 28, 1934, reveals that the stock of the affiliate has been issued and that 95 shares are in the name of W. J. Breidenthal, and the other 5 shares were issued in the name of other officers and directors of the bank. Two subsequent examinations show that the stock of the Central Securities Company is held by officers or directors of the Riverview State Bank. However, your letter states that the affiliate has not issued any of its

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"authorized capital stock.

"Section 21 of the Federal Reserve Act, as amended by section 325 of the Banking Act of 1935, authorizes the Board in certain circumstances to waive the requirement for the submission of reports of affiliates of State member banks. The extent to which the Board has acted under this authority is indicated in the terms of waiver which are set forth in the Board's letter of September 9, 1935 (X-9312) and which are determinative of the present question as to whether reports of the Central Securities Company need not be submitted.

"If, as is indicated in your letter, no stock of the Company has been issued and the Company has no assets or liabilities it would seem that under the above-mentioned terms of waiver reports of condition need not be filed, but, in view of the conflicting information submitted to the Board, it is believed that you should ascertain whether the information which has been given to you is correct. If stock of the Company has been issued and if you are unable with the advice of counsel for your bank to determine whether the case is one falling within the Board's terms of waiver, it is suggested that the question be again submitted to the Board accompanied by a statement of all pertinent facts."

Approved unanimously.

Telegram dated October 10, 1935, approved by four members of the Board, to Mr. Curtiss, Federal Reserve Agent at the Federal Reserve Bank of Boston, reading as follows:

"Your letter October 4 re desirability of obtaining ruling from Federal Power Commission as to applicability of section 305(b) of Federal Power Act to officers and directors of member banks. It is not understood that any case has been called to your attention in which the applicability of this section is involved and in such circumstances it is not apparent on what basis request for ruling from Federal Power Commission might be made. If any such case involving a director of a Federal Reserve bank or member bank should come to your attention and you advise Board of the facts with regard thereto, Board will be glad to communicate with the Federal Power Commission stating the facts and suggesting the desirability of an early determination of the question."

Approved unanimously.

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Letter to Mr. Henry E. Sargent, Secretary, American Bankers Association, New York, New York, reading as follows:

"Upon my return to the office your letter of September 24, in regard to the Handbook for Examiners Making Examinations of Trust Departments of Member Banks, was brought to my attention. The consideration which has been given to it by you and others associated with you is very much appreciated and a copy of your letter is being transmitted to Mr. John A. Peyton, Chairman of the Federal Reserve Bank of Minneapolis, under whose direction this handbook was prepared."

Approved unanimously.

Letter dated October 10, 1935, approved by four members of the Board, to Mr. R. D. W. Connor, Archivist, The National Archives, Washington, D. C., reading as follows:

"Receipt is acknowledged of your letter of September 6, 1935, requesting a list of any papers, etc., in the files of the Board of Governors of the Federal Reserve System which the Board desires to have included in the report to Congress which will be submitted by you on January 1, 1936, in accordance with the requirements of section 9 of the National Archives Act, and which will contain a list or description of papers, documents, etc., which appear to have no permanent or historical value and which may be destroyed.

"The Board has on hand at the present time approximately 275 pounds of correspondence during the years 1923 to 1933, inclusive, regarding subscriptions to the Federal Reserve Bulletin and orders for the publication 'Verification of Financial Statements', the destruction of which should be authorized. It will be appreciated if you will include this item in the report above referred to and, upon receipt of a proper authorization from Congress, advise the Board of the further steps to be taken."

Approved unanimously.

Telegram dated October 10, 1935, approved by four members of the Board, to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

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"Your wire October 9 concerning information to be furnished Fred L. Garlock. Board understood from Acting Comptroller Awalt that Madland would contact you directly regarding matter and that you would conform to procedure followed by him. However, Board will interpose no objection to your making available to Garlock earnings and dividend reports and examination reports, exclusive, of course, of confidential sections thereof, pertaining to both failed and going banks."

Approved unanimously.

Letter to Mr. Coe, Deputy Governor of the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of September 26, inclosing a copy of a letter from the National Industrial Conference Board, dated September 10, 1935, requesting certain information on a form questionnaire relative to activities carried on by employers for employees, and also inclosing a copy of your proposed reply. In this connection, you are advised that the Board will interpose no objection to your furnishing the information contained in the questionnaire to the National Industrial Conference Board."

Approved unanimously.

Letter to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"Consideration has been given to the inquiry contained in your telegram of September 10, 1935, regarding the meaning of the phrase 'contiguous or adjacent thereto' contained in paragraph (5) of section 8 of the Clayton Act as amended by section 329 of the Banking Act of 1935. In this connection you refer to the definitions of the phrase 'territory contiguous thereto' contained in the Board's resolution of November 7, 1923 and to further definitions of that phrase contained in its letter of January 24, 1924, dealing specially with San Francisco and Los Angeles. In the event that those definitions are not to be used as a basis for determining what is 'contiguous or adjacent thereto' within the meaning of the Clayton Act, you request a definition of the phrase in the Clayton Act.

"The definition contained in the Board's resolution of

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"November 7, 1923 was made as a part of a statement of administrative policy by the Board regarding the operation of branches by State member banks, and the special definitions contained in its letter of January 24, 1924 amended that definition with respect to two particular situations. Furthermore, these definitions referred to 'contiguous territory', whereas the Clayton Act refers to cities, towns, and villages which are 'contiguous or adjacent'. Therefore, these definitions cannot be used as a basis for determining what cities, towns, and villages are 'contiguous or adjacent' within the meaning of the Clayton Act.

"However, the Board believes that the word 'contiguous' in the Clayton Act may be given a similar interpretation to that given it in the Board's resolution and that it should be defined as referring to cities, towns, and villages whose corporate limits touch or coincide at some point.

"The Board believes that the word 'adjacent' in the Clayton Act was intended to refer to cities, towns, and villages which, although not actually 'contiguous' within the above definition of that word, are located in such close proximity and are so readily accessible to each other as to be in practical effect a single city, town, or village, as for example, cities, towns, or villages separated only by a watercourse, or a suburb of a city separated from that city by an intervening suburb.

"In any case in which there is doubt as to the applicability of this provision of the Act in the light of the definitions given above, it is believed that consideration may properly be given to the question whether there is any substantial conflict of competitive interest between the banks of one city, town, or village and the banks of the other, since, as you know, the underlying purpose of the Clayton Act is to prevent monopolies and substantial lessening of competition, and since, in using the phrase 'contiguous or adjacent', it seems probable that Congress was describing cities, towns, and villages in which it felt that such conflict of competitive interest would exist.

"If in any case you are not able with the assistance of your counsel to determine to your own satisfaction whether or not the exception contained in paragraph (5) of section 8 is applicable, it is suggested that you refer the question to the Board, furnishing it with full information, together with a statement of your views and those of your counsel and such recommendation as you may wish to make."

Approved unanimously, with the understanding that a copy of the letter would be sent to the Federal reserve agents at other Federal Reserve banks.

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Thereupon the meeting adjourned.

Orestes Moriel
Secretary.

Approved:

W. Steeles
Chairman.